

DEPARTMENT OF MENTAL HEALTH
MAJOR BUDGET ADJUSTMENTS
AS INCLUDED IN THE 2005-06 BUDGET ACT

The proposed Fiscal Year 2005-06 budget for the Department of Mental Health (DMH), from all funding sources, as included in the 2005-06 Governor's Budget is \$3,009,505,000. *This amount does not include any local assistance funding that will be provided from the Mental Health Services Fund. Because the Mental Health Services Fund is continuously appropriated it is not included in the annual Budget Act.* Excluding Capital Outlay funding the \$3,009,505 reflects an increase of 17.6 percent in total expenditures for Fiscal Year 2005-06. The proposed General Fund budget for Fiscal Year 2005-06, excluding Capital Outlay, is \$1,288,871,000, which represents a 31.1 percent increase over the revised mid-year General Fund budget for Fiscal Year 2004-05.

The overall increase (31.1 percent) in the Department's General Fund budget is the net result of significant adjustments in the state hospital budget, as well as the funding of *the local mandates for Services to Handicapped Students and Seriously Emotionally Disturbed Pupils*. The adjustments to the state hospital budget include: (1) an increase for employee compensation adjustments approved in Fiscal Year 2004-05 and Fiscal Year 2003-04; (2) the continuing activation of Coalinga State Hospital; (3) the full-year cost of 2004-05 population adjustments; (4) an anticipated increase of 476 Judicially Committed/Penal Code (JC/PC) patients during Fiscal Year 2005-06; (5) *the transfer of the General Fund support for inmates from the California Department of Corrections and Rehabilitation (CDCR) (formerly the California Department of Corrections) to the DMH state hospital budget;* (6) *a fund shift to the General Fund from the Hospital Services Account of the Cigarette and Tobacco Products Surtax Fund;* and (7) *the elimination of a proposed reduction, included in the Governor's Budget, resulting from the transfer of 100 pre-commitment Sexually Violent Predators (SVPs) back to the counties until completion of the judicial process.* All of these issues will be discussed in greater detail below.

In November 2004, the voters of California approved Proposition 63, the Mental Health Services Act, which will provide a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds \$1,000,000 annually. For Fiscal Year 2004-05 the projected revenue to be deposited into the Mental Health Services Account is \$254,000,000. In Fiscal Year 2005-06 projected revenue is \$683,000,000. *The Budget Act will reflect an "in lieu of" appropriation from the Mental Health Services Fund to support DMH administrative activities associated with the implementation of the Mental Health Services Act, as well as funding for support of the Governor's Chronic Homelessness Initiative. These issues will also be discussed in greater detail below.*

Major budget adjustments in the Fiscal Year 2005-06 Budget Act include the following:

LOCAL ASSISTANCE

- A net increase in reimbursements of \$61,316,000 from the Department of Health Services (DHS) for the Early Periodic Screening, Diagnosis and Treatment (EPSDT) Program. This increase includes a General Fund increase of \$35,902,000 and an increase of \$25,414,000 in Federal Financial Participation (FFP). *This increase reflects two major adjustments: (1) a reduction of \$78,041,000 to reflect a decrease in the amount of cost settled claims and (2) an increase of \$139,357,000 to reflect the amount needed to repay counties for final settlement of the Fiscal Year 2002-03 cost reports for EPSDT.*

LOCAL ASSISTANCE (Continued)

- A net General Fund increase of \$4,743,000 for the Managed Care Program for both inpatient and specialty mental health services to reflect the following adjustments: (1) changes in the number of Medi-Cal beneficiaries (\$4,717,000); (2) a one percent reduction in growth for managed care inpatient services (-\$125,000); (3) a reduction for a decrease in the number of eligibles in the Breast and Cervical Cancer Treatment Program (-\$5,000); (4) an increase to reflect full implementation of the federal Medicaid managed care regulations for Solano County (\$89,000) *and an increase of \$67,000 to reflect changes in the appeals and state fair hearing processes required by federal regulations.* The General Fund changes result in an increase of \$4,743,000 in reimbursements from DHS reflected in the Department's *General Fund* local assistance appropriation.
- A net decrease in reimbursements of \$2,117,000 for the Healthy Families Program to reflect (1) a caseload decrease of (-\$1,925,000) and (2) a corresponding decrease for county administrative costs (-\$192,000).
- An increase of \$750,000 from the Federal Trust Fund to reflect the receipt of additional funds from the Projects for Assistance in Transition from Homelessness (PATH) formula grant. These additional funds will be allocated to the participating counties based on the Cigarette and Tobacco Products Surtax formula.
- An increase of \$464,000 in reimbursements from DHS to reflect adjustments to the funding level for the San Mateo Pharmacy and Laboratory Services Field Test. This increase includes a reduction of \$672,000 from the amount included in the 2005-06 Governor's Budget to reflect the impact of implementing the Medicare Part D drug benefit authorized by the federal Medicare Modernization Act. The full amount of the increase is attributed to pharmacy costs with laboratory costs remaining unchanged from the funding level included in the Budget Act of 2004.
- An increase of \$303,000 from the Federal Trust Fund to reflect the receipt of additional funds from the Substance Abuse and Mental Health Services Administration (SAMHSA) Block Grant. These additional funds will be allocated to the counties based on the Cigarette and Tobacco Products 1 Surtax formula.

STATE MANDATED LOCAL PROGRAMS

- A General Fund increase of \$120,000,000 for payments to the counties for mental health services provided to seriously emotionally disturbed pupils per AB 3632. \$60,000,000 of this amount is for payment for services provided during Fiscal Year 2004-05 and the remaining \$60,000,000 is for services to be provided during Fiscal Year 2005-06.
- The General Fund increase of \$12,509,000 included in the 2005-06 Governor's Budget for payments to local agencies through the State Mandates Program has been eliminated with the transfer of the Department's five other state mandates to a central Budget Act item. The \$12,509,000 included the following proposed mandate payments:

• Coroner's Responsibilities	\$ 80,000
• Mentally Disordered Sex Offenders	163,000
Extended Commitments	
• Not Guilty By Reason of Insanity	1,054,000
• Mentally Disordered Offenders	2,310,000
Extended Commitment Proceedings	
• Sexually Violent Predators	8,902,000

DEPARTMENTAL SUPPORT

- *An increase of \$16,647,000 from the Mental Health Services Fund and 89.5 positions (46.5 permanent and 43.0 two-year limited term) to absorb the workload associated with implementing the provisions of Proposition 63. Included in this funding is a total of \$3,150,000 for support of the Governor's Chronic Homelessness Initiative. The \$3,150,000 includes \$2,000,000 for rent subsidies, \$750,000 for pre-development costs for housing the mentally ill and \$400,000 to establish collectives at the local level to assist counties in developing projects to promote stable housing for homeless persons. This funding will be added to \$40,000,000 that has been redirected from existing housing bonds and \$10,000,000 from the California Housing Financing Agency to create 400-500 units of permanent housing with services for chronic mentally ill populations.*
- *An increase of \$14,930,000 (\$7,465,000 General Fund and \$7,465,000 in reimbursements from DHS) (one-time only) to comply with federal regulations related to providing informing materials to all Medi-Cal beneficiaries and informing materials and provider listings to all current Mental Health Plan clients.*
- *A net General Fund reduction of \$1,232,000 to reflect a decrease in the cost of initial sexually violent predator (SVP) evaluations and associated costs for court testimony and travel costs. The most significant adjustment was a reduction of \$742,000 for the cost of initial evaluations.*
- *An unallocated General Fund reduction of \$709,000 in departmental operating expense costs, which will be achieved by reducing or eliminating some consultant and professional services contracts. This unallocated reduction, which is being applied statewide, is intended to reduce state government expenditures and assist in balancing the budget.*
- *A General Fund reduction of \$150,000 pursuant to Budget Control Section 4.10 of the Budget Act of 2004. This control section required the Director of Finance, in consultation with agency secretaries and other cabinet members, to reduce General Fund appropriations in the Budget Act of 2004 by \$150,000,000. The Department's reduction is the result of savings achieved in the awarding of a consultant services contract for EPSDT audits. In addition to the General Fund savings there is a corresponding savings of \$150,000 in reimbursements from DHS.*
- *A General Fund augmentation of \$120,000 to replace previously reduced funding for the annual contract with Protection and Advocacy, Inc. (PAI). PAI maintains a central Office of Patients' Rights to provide technical assistance, training and third level appeal resolution to all fifty-eight counties and the five state hospitals.*
- *An increase of \$94,000 in reimbursements from DHS and 1.0 position (0.9 PY) on a two-year limited term basis, to assist in implementing bioterrorism preparedness and capacity building. The reimbursement from DHS will come from funding provided by the federal government through the Center for Disease Control and the National Bioterrorism Hospital Preparedness Program.*
- *A General Fund increase of \$69,000 and 1.0 position (effective September 1, 2005) on a two-year limited term basis to coordinate state hospital implementation of the Medicare Part D drug benefit authorized by the federal Medicare Modernization Act.*

CONDITIONAL RELEASE PROGRAM

- A net General Fund reduction of \$580,000 to reflect (1) a decrease in projected caseload from 753 to 720 (-\$696,000); (2) additional costs for state hospital liaison visits (\$165,000) based on an increase in the JC/PC state hospital population; (3) support for patients released from the state hospitals into Conditional Release without resources and who are not eligible for SSI (\$85,000); (4) an increase in the number of sexually violent predators that will be released to Conditional Release during the current and budget years (\$91,000) and (5) a reduction for the half-year cost of five SVPs that were expected to be released into the community during Fiscal Year 2005-06 (-\$225,000).

LONG TERM CARE SERVICES

- A General Fund increase of \$65,694,000 for the continuing activation of Coalinga State Hospital scheduled to open in September 2005 with a capacity of 250 beds. Sexually Violent Predators, currently housed and treated at Atascadero State Hospital, will be transferred to Coalinga. The \$65,694,000 includes the following:
 - \$8,687,000 to support 140.1 non level-of-care positions (121.8 PYs), effective August 2005, for Phase VII activation.
 - \$38,342,000 to support 659.3 level-of-care positions (498.0 PYs). 211.0 of these positions will be effective on July 1, 2005, with the balance of 448.3 to become effective over the balance of the fiscal year as each group of 100 beds is activated.
 - \$18,665,000 to support operating expense costs including relocation costs for state employees choosing to transfer to Coalinga and support for recruitment activities. \$7,098,000 of this amount is one-time only.
- *As part of the Spring Finance Letter process it was agreed that the General Fund included in the budget of the former California Department of Corrections (CDC,) for support of mentally ill inmates transferred to DMH for care and treatment, would be transferred into the DMH state hospital appropriation. As a result the DMH state hospital budget increased by a total of \$61,034,000 from the General Fund with a corresponding reduction of \$60,632,000 in reimbursements. The difference of \$402,000 reflects support for training coverage relief for the Vacaville Psychiatric Program and Salinas Valley Psychiatric Program that had been included in the CDC budget, but not reflected in the DMH state hospital budget for Fiscal Year 2005-06. As a result of this transfer several of the issues that are discussed below would be double-counted in reconciling the state hospital budget. However, because they are significant budget adjustments for Fiscal Year 2005-06 they remain in this document.*
- An increase of \$27,122,000 (\$27,034,000 General Fund and \$88,000 in reimbursements) for base rental (\$26,920,000), trustee and other fees (\$200,000) and insurance costs (\$2,000) associated with the funding of major capital outlay projects through the sale of bonds.
- A General Fund restoration of \$9,200,000 to reflect the elimination of a proposal to eliminate 100 beds for SVP patients (full-year) by enacting statutory changes that would have allowed the transfer of 100 pre-commitment SVPs from the state hospitals back to local jurisdictions pending the final adjudication of their SVP commitment. The 2005-06 Governor's Budget had reflected these savings in the state hospital budget.

LONG TERM CARE SERVICES (Continued)

- A General Fund increase of \$8,475,000 (formerly reimbursements from CDC) for the provision of a 50-bed intermediate level of care unit at Coalinga State Hospital. These beds will ensure that CDC is in compliance with federal court orders in the Coleman v. CDC litigation that requires adequate mental health services be provided for CDC inmates. The \$8,475,000 includes the following:
 - \$2,772,000 to support 39.6 non level-of-care positions (37.6 PYs), effective July 1, 2005.
 - \$5,075,000 to support 54.0 level-of-care positions (51.3 PYs), effective July 1, 2005.
 - \$628,000 to support operating expense costs. \$250,000 of this amount is one-time only.
- A net increase of \$3,900,000 (a General Fund increase of \$11,656,000 and a decrease of \$7,756,000 in realignment reimbursements) for population changes in the state hospitals. The individual adjustments include:
 - A reduction of 572 beds at Atascadero State Hospital (partial year) to reflect the transfer of 533 SVPs to Coalinga State Hospital and a reduction of 39 SVPs for a General Fund savings of \$33,735,000. This adjustment results in a decrease of 487.4 positions (463.0 PYs). The corresponding increase for the SVP population is included in the Coalinga Activation Budget Change Proposal discussed on Page 4 of this document.
 - A General Fund reduction of \$6,020,000 and 91.6 positions (87.0 PYs) at Coalinga State Hospital to reflect the restructuring of the SVP treatment program.
 - An increase of 202 beds (full year) to reflect the impact of a higher than anticipated JC/PC population in the prior year. This adjustment results in a General Fund increase of \$21,614,000 and a reduction of \$1,454,000 in realignment reimbursements. This funding will support the addition of 257.7 level-of-care positions (244.8 PYs). Funding to support the current year deficiency will be discussed later in this document. *A portion of the funding identified in the 2005-06 Governor's Budget (\$11,877,000) for support of this population adjustment was to come from the Hospital Services Account of the Cigarette and Tobacco Products Surtax Fund. The May Revision to the Governor's Budget eliminated that funding source for support of the state hospitals and replaced it with General Fund.*
 - An increase of 410 beds for JC/PC patients at a half-year General Fund cost of \$21,935,000 for level-of-care staffing, operating expense costs and overhead. This adjustment results in an increase of 247.3 positions (235.0 PYs) in the state hospitals (half-year). Also included is a reduction of \$3,134,000 in realignment reimbursements for the shift in overhead costs.
 - An increase of \$8,667,000 (\$7,020,000 General Fund and \$1,647,000 in realignment reimbursements) for patient driven operating expenses in the state hospitals. These patient driven operating expenses include food, chemicals, drugs and laboratory supplies and outside medical costs.
 - A reduction of 45 LPS patients (full-year) for a savings of \$4,815,000 in realignment reimbursements. This adjustment results in the reduction of 54.6 positions (51.9 PYs). Also included is a General Fund increase of \$842,000 for the shift in overhead costs.
- An increase of \$3,005,000 in realignment reimbursements from the counties to support a staffing increase for the Youth and Skilled Nursing Facility Programs at Metropolitan and Napa State Hospitals. This funding will support the addition of 33.5 nursing staff (31.8 PYs) at Metropolitan State Hospital and 12.7 nursing staff (12.1 PYs) at Napa State Hospital based on patient acuity level.

LONG TERM CARE SERVICES (Continued)

- A General Fund increase of \$2,330,000 (formerly reimbursements from CDC) to support an increase of 61 intermediate care and day treatment program beds for the Vacaville Inpatient Psychiatric Program. This request is in response to a court order in the Coleman case where the court has determined that there continues to be an inadequate number of mental health treatment beds to meet the needs of CDC inmates.
- A General Fund increase of \$733,000 to support additional recruitment and retention (R&Rs) pay differentials at Coalinga State Hospital (\$706,000) and the Salinas Valley Psychiatric Program (\$27,000) pursuant to a court order in the Coleman case, issued in March 2005, by the United States District Court for the Eastern District of California. The court order required a plan to be submitted to the Coleman special master that included a "meaningful schedule of differential pay...for psychiatrists in...Salinas Valley State Prison...and for psychiatrists, case managers and recreational therapists and psych techs...This plan is to anticipate and address the potentially adverse impact...on adjacent institutions..., as well as competition for mental health personnel inevitably associated with DMH's opening of its Coalinga facility in 2005."
- An increase of \$767,000 (\$427,000 General Fund and \$292,000 in realignment reimbursements) and 7.0 positions (effective September 1, 2005) on a two-year limited term basis to carryout the administrative responsibilities required to comply with the Medicare Part D drug benefit authorized by the federal Medicare Modernization Act. A portion of these costs will be offset by the collection of additional Title XVIII revenue beginning in January 2006.
- A General Fund reduction of \$475,000 to reflect utility savings generated from energy efficiency projects completed at Metropolitan State Hospital. This funding will repay DMH's share of the \$3,700,000 borrowed from the Pooled Money Investment Account in the General Fund that provided interim funding for these projects. Repayment to the General Fund, plus five percent interest, will occur over a ten-year period through the utility savings generated by these projects.
- A reduction of \$265,000 in funding from the California State Lottery Fund to reflect a decrease in average daily attendance.

CAPITAL OUTLAY

- A General Fund increase of \$5,282,000 for the construction phase of a project at Metropolitan State Hospital that will renovate all existing satellite serving kitchens to meet licensing requirements and implement the cook/chill system. This proposal shifts funding for this project from the Public Building Construction Fund (\$5,045,000) and includes a General Fund augmentation of \$237,000.
- A General Fund increase of \$392,000 to complete a minor project at Napa State Hospital to expand the security alert system into six courtyards adjoining 24-hour patient occupied buildings. The project will include the installation of conduit, receivers, wiring and strobe lights.

CAPITAL OUTLAY (Continued)

- The 2005-06 Budget Act includes a total of \$56,930,000 from the Public Building Construction Fund to support three major Capital Outlay projects in Fiscal Year 2005-06. The majority of this funding (\$32,554,000) has been reappropriated from prior Budget Acts. The balance of \$24,376,000 reflects project augmentations or the additional reappropriation of funds. The following three projects will be supported with the \$56,930,000: (1) the working drawings and construction phases of a project to build a new main kitchen and remodel the satellite serving kitchens at Metropolitan State Hospital (\$18,030,000); (2) the construction phase of a project to build a new school building on the grounds of Metropolitan State Hospital (\$8,754,000); and (3) the working drawing and construction phases of a project to renovate the admissions suite, complete fire and life safety improvements and seismic retrofit the EB Building at Patton State Hospital (\$30,146,000).

REALIGNMENT

- For Fiscal Year 2005-06 it is estimated that a total of \$1,221,225,000 will be available for mental health services. This is an increase of \$22,854,000 (1.9 percent) from the amount anticipated for Fiscal Year 2004-05. This amount does not include the estimated \$14,000,000, which may be made available from the Vehicle License Collection Account. The total of \$1,221,225,000 in realignment funding will come from the following sources:

• Sales Tax	\$835,285,000
(deposited in the Mental Health Subaccount)	
• Sales Tax Growth Account	-0-
(General Growth Subaccount)	(-0-)
(Mental Health Equity Subaccount)	(-0-)
(State Hospital Mental Health Equity Subaccount)	(-0-)
• Vehicle License Fee Account	\$363,086,000
• Vehicle License Fee Growth Account	\$22,854,000

Note: For Fiscal Year 2005-06, the Governor did not veto any of the augmentations provided to the DMH budget. The Budget Act is found in Senate Bill 77 (Chapter 38, Statutes of 2005). There is a companion bill, Senate Bill 80 (Chapter 39, Statutes of 2005) that includes amendments to many of the appropriations included in Chapter 38. DMH has no adjustments in Chapter 39. Therefore, all appropriation levels included in Chapter 38 are correct.

DEPARTMENT OF MENTAL HEALTH
SUMMARY OF APPROPRIATION TOTALS
FOR FISCAL YEAR 2005-2006 AS REFLECTED
IN THE 2005-2006 BUDGET ACT
BY PROGRAM AND FUNDING SOURCE

(Dollars in Thousands)

TOTAL	\$3,009,505
General Fund	1,245,150
General Fund (Prop 98)	13,400
General Fund (Lease Revenue Payments)	30,321
General Fund (Capital Outlay)	5,674
Mental Health Services Fund	16,647
Public Building Construction Fund	56,930
Lottery Education Fund	1,156
Traumatic Brain Injury Fund	1,060
Federal Trust Fund	62,989
Reimbursements	1,498,788
Reimbursements (realignment/patient generated)	77,390
DEPARTMENTAL SUPPORT <u>1/</u>	\$86,286
General Fund	37,272
Mental Health Services Fund	16,647
Traumatic Brain Injury Fund	168
Federal Trust Fund	3,532
Reimbursements	28,667
STATE HOSPITALS	\$887,488
General Fund	767,702
General Fund (Prop 98)	3,400
General Fund (Lease Revenue Payments)	30,321
Lottery Education Fund	1,156
Reimbursements	7,519
Reimbursements (realignment/patient generated)	77,390
CONDITIONAL RELEASE PROGRAM	\$21,544
General Fund	21,544
LOCAL ASSISTANCE <u>2/</u>	\$1,831,583
General Fund	298,632
General Fund (Prop 98)	10,000
Traumatic Brain Injury Fund	892
Federal Trust Fund	59,457
Reimbursements	1,462,602
STATE MANDATED LOCAL PROGRAMS	\$120,000
General Fund	120,000
CAPITAL OUTLAY	\$62,604
General Fund (Capital Outlay)	5,674
Public Building Construction Fund	56,930

1/ Includes Funding for the Health Insurance Portability Accountability Act.

2/ Includes the Traumatic Brain Injury Program, Brain Damaged Adults Program, Early Mental Health Initiative Program and funding for mental health managed care.

DEPARTMENT OF MENTAL HEALTH
LOCAL ASSISTANCE FUNDING DETAIL
FOR FISCAL YEAR 2005-06 AS REFLECTED
IN THE 2005-06 BUDGET ACT

(Dollars in Thousands)

<u>Local Assistance Funding</u>	\$1,951,583
General Fund	\$298,632
General Fund (Local Mandates)	120,000
General Fund (Prop 98)	10,000
Traumatic Brain Injury Fund	892
Federal Trust Fund	59,457
Reimbursements	1,462,602
<u>General Fund</u>	\$298,632
• Mental Health Managed Care	\$227,167
• Integrated Services for the Homeless	54,850
• Children's System of Care	350
• Brain Damaged Adults Program	11,747
• AIDS	1,500
• Community Services – Other Treatment	1,720
• Community Treatment Facilities	1,200
• Healthy Families	98
<u>General Fund (Local Mandates)</u>	\$120,000
• Services to Handicapped Students and Seriously Emotionally Disturbed Pupils	
2004-05 Costs	\$60,000
2005-06 Costs	60,000
<u>General Fund (Prop 98)</u>	\$10,000
• Early Mental Health Initiative	\$10,000
<u>Traumatic Brain Injury Fund</u>	\$892
• Traumatic Brain Injury Project	\$892
<u>Federal Trust Fund</u>	\$59,457
• Community Services – Other Treatment (SAMHSA)	\$51,750
• Homeless Mentally Disabled (PATH)	7,382
• Dual Diagnosis Tool-Kit Grant	325
<u>Reimbursements</u>	\$1,462,602
• Early and Periodic Screening Diagnosis and Treatment (EPSDT) Program	\$815,005
• Short-Doyle/Medi-Cal/Mental Health Managed Care	632,251
• Healthy Families	14,868
• Traumatic Brain Injury Cooperative Program	232
• Title IV-E Training	226
• Olmstead Planning Grant	20

Budgets

FLC

7/11/05